Second Quarter 2017
Financial Statement Highlights

Megan Heater
Controller
Finance Committee
August 23, 2017

2Q17 Balance Sheet Highlights - Assets

(dollars in millions)	6/30/17 Balance	12/31/16 Balance	Change	
			$	%
Operating cash (1)	278	392	(114)	(29)
Projects in development (2)	38	32	6	18
Note receivable (3)	4	5	(1)	(20)

(1) Decrease in operating cash is primarily due to a $67 million decrease in member prepayments at June 30, 2017 as compared to December 31, 2016. The remaining difference is due to the timing of collections vs. expenditures.

(2) Increase in projects in development is primarily due to work performed on the following significant projects: (1) PJM Technology Center renovation; (2) Enterprise Service Bus Replacement and Refresh; (3) Data Miner; and (4) Intraday Offers. The increase was offset by several large projects placed into service during the first six months of 2017, including (1) Smartlogs; (2) Valley Forge Video Wall Upgrade; (3) Market to Market Enhancements; and (4) Identity Sync.

(3) At June 30, 2017, $2.1 million and $1.4 million represent the current and non-current portions of the note receivable with Monitoring Analytics, LLC (MA), respectively. The current portion of the note receivable at June 30, 2017 represents the balance to be repaid over the next 12 months. The total outstanding loan to MA is $3.5 million at June 30, 2017.

2Q17 Balance Sheet Highlights - Liabilities

(dollars in millions)	6/30/17 Balance	12/31/16 Balance	Change	
			$	%
Accounts payable and accrued expenses (1)	55	30	25	83
Due to members (2)	308	438	(130)	(29)
Deferred regulatory liability – current (3)	-	4	(4)	(100)
Deferred regulatory liability – non-current (3)	17	5	12	240

(1) Increase in accounts payable and accrued expenses is primarily due to the FERC fee accrual for the first six months of 2017.

(2) Due to members balance at June 30, 2017 is comprised of $303 million of member prepayments and $5 million of FTR excess congestion revenue collected but not yet remitted to members.

(3) The current portion of the deferred regulatory liability represents the amount to be refunded to members. At December 31, 2016, the balance primarily represented projected refunds for PJM Interconnection, LLC (actual refunds made by PJM Interconnection, LLC during the first quarter of 2017 were $3.8 million). At June 30, 2017, the non-current portion of the deferred regulatory liability balance represents PJM Interconnection, LLC's reserve balance allowable under the Tariff (up to 6 percent of annual stated rate revenues).

2Q17 Change in Deferred Regulatory Liability

($ in millions)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Service Fees	74	152
Expenses, net	(71)	(140)
Change in Deferred Regulatory Liability	3	12

2Q17 Income Statement Highlights

(dollars in millions)	2Q17	2Q16	Change	
			$	%
Service fees (1)	74	65	9	14
Deferred regulatory expense (1)	(3)	4	(7)	(175)
Depreciation and amortization (2)	23	26	(3)	(12)

(1) Increase in service fees and change in deferred regulatory expense are due to the increase in the stated rate tariff rate effective January 1, 2017. In second quarter 2017, service fees exceeded actual expenses resulting in a $3 million contribution to the deferred regulatory liability balance. In second quarter 2016, actual expenses exceeded service fees resulting in a $4 million reduction in the deferred regulatory balance.

(2) Decrease in depreciation and amortization is reflective of AC^2 assets reaching their useful lives during 2016.

2Q17 Cash Flow Statement Highlights

(dollars in millions)	1Q17	1Q16	Change	
			$	%
Operating Cash Flows (1)	37	13	24	185
Financing Cash Flows (2)	(183)	261	(444)	(170)

(1) The increase in net cash provided by operating activities is primarily due to the funding of the deferred regulatory liability during the first six months of 2017, the timing of study and interconnection activity, and timing of receivables.

(2) The change in net cash (used) provided by financing activities is driven by a decrease in customer deposits for the first six months of 2017 as compared to the first six months of 2016. The increase in deposits on hand for the six-month period ended June 30, 2016 was driven by higher customer deposits as a result of a shift from letters of credit to cash collateral. Also contributing to the decrease period over period in net cash (used) provided by financing activities was a decrease in the amount due to members for the first six months of 2017 as compared to the first six months of 2016.

Footnotes:

- Footnote 11 provides a summary of ongoing legal and regulatory matters.
  - Marginal Line Loss Surplus Payment Re-allocation – DC Circuit Court of Appeals remand order in August 2013 directed FERC to provide additional support for its determination to recoup the previously ordered refunds. FERC issued an order in November 2015 reaffirming previous recoupment order.
  - TranSource Matter – In February 2016, TranSource filed a complaint at FERC asserting it incurred $72 million of lost profit opportunities from monthly Incremental Auction Revenue Rights during 2015. A hearing is scheduled for September 5, 2017 with an initial decision scheduled for December 22, 2017.